

Message Text

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ACTION SS-14

INFO OCT-01 ISO-00 EUR-08 SSO-00 EB-03 SP-02 TRSE-00 NSC-05

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 7610

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TAGS: EFIN, UK

SUBJECT: SITUATION REPORT, NOVEMBER 12

REF: A. STATE 267168 B. LONDON 18157

1. A SHORT-TERM EXTENSION OF THE \$5.3 BILLION STANDBY CREDIT IS SEEN AS A POSSIBILITY IN A FINANCIAL TIMES ARTICLE BY DAVID BELL. THIS WOULD GIVE THE BRITISH GOVERNMENT AND THE IMF MORE TIME FOR MANEUVER IN WORKING OUT TERMS CURRENTLY BEING NEGOTIATED. THE IMF TEAM IS UNDERSTOOD TO NOT BE ENTIRELY SATISFIED WITH SOME ESTIMATES OF THE PUBLIC SECTOR BORROWING REQUIREMENT.

BELL REPORTS THAT SOURCES IN WASHINGTON SAY THAT THE TIME MAY NOW BE RIPE FOR BRITAIN TO TAKE A NEW INITIATIVE ON THE QUESTION OF STERLING BALANCES. A NUMBER OF INDUSTRIALIZED COUNTRIES MAY BE INTERESTED IN DISCUSSING THE PROBLEM AND PREPARED TO ADVANCE A LARGE NEW STANDBY FACILITY SHOULD THESE TALKS SUCCEED, PROVIDED BRITAIN HAS ALREADY AGREED TO STRINGENT NEW IMF CONDITIONS. BUT THERE IS CONFUSION ABOUT WHAT BRITAIN ACTUALLY WANTS AND THE U.K. MUST
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MAKE THIS MUCH CLEARER.

THE U.S. POSITION IS ALSO NOT CLEAR. BELL REPORTS THERE IS NO REASON TO BELIEVE THAT THE CURRENT ADMINISTRATION HAS CHANGED ITS VIEW THAT BRITAIN CAN AND SHOULD REACH AGREEMENT WITH THE IMF BY THE TIME THE \$5.3 BILLION SWAP CREDIT EXPIRES ON DECEMBER 9. IT IS NOT CLEAR IF THE NEW CARTER ADMINISTRATION IS LIKELY TO TAKE THE SAME VIEW BUT IT IS ARGUED IN SOME QUARTERS THAT IF TALK OF NEEDING MORE TIME WERE SEEN TO BE A PLOY TO PUT PRESSURE ON THE INCOMING ADMINISTRATION, THIS MIGHT BACKFIRE. THE PRESENT ADMINISTRATION WILL BE IN OFFICE UNTIL JANUARY 20 AND HAS SAID FOR SOME TIME THAT IT WANTS FIRM EVIDENCE OF NEW BRITISH POLICIES BEFORE IT DISCUSSED OTHER CHANGES.

THERE IS NOT MUCH CHANCE OF BRITAIN RECEIVING ANOTHER LOAN OF THE KIND MADE IN JUNE WHICH WAS UNCONDITIONAL. THERE ARE SOME, HOWEVER, WHO BELIEVE AN EXTENSION WOULD BE USEFUL BECAUSE THE IMF WILL NEED MORE TIME THAN THE DECEMBER DEADLINE ALLOWS TO DO ITS JOB PROPERLY AND WORK OUT A SYSTEM OF PERFORMANCE CLAUSES. SOURCES IN WASHINGTON ARE ALSO CITED AS BELIEVING THAT IF LEADING INDUSTRIAL NATIONS WERE AT LEAST WILLING TO TALK ABOUT THE BALANCES QUESTION AT THE SAME TIME A NEW IMF CREDIT IS ANNOUNCED, THIS COULD HAVE A MARKED EFFECT ON THE STABILITY OF STERLING.

2. THE IMF TEAM CURRENTLY IN LONDON ARE REPORTED TO HAVE HAD SEPARATE MEETINGS WITH THE TUC AND THE CBI TO SEEK THEIR VIEWS ON WAGE RESTRAINT, INDUSTRIAL GROWTH, AND FUTURE ECONOMIC POLICY.

3. BURNS STATEMENT. NEWSPAPERS AND TELEVISION CARRIED REPORTS THAT ARTHUR BURNS, FEDERAL RESERVE BOARD CHAIRMAN, STATED HE WAS CONFIDENT THAT BRITAIN WOULD BE GRANTED THE \$3.9 BILLION IMF CREDIT. THE BBC COMMENTED THAT CHAIRMAN BURNS WOULD NOT HAVE MADE SUCH A STATEMENT IF HE HAD NOT RECEIVED INFORMATION FROM LONDON THAT THE IMF NEGOTIATIONS WERE GOING WELL.

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4. INDUSTRIAL PRODUCTION. AFTER THREE MONTHS OF RELATIVE FLATNESS, OVERALL INDUSTRIAL OUTPUT INCREASED BY 1/5 PERCENT IN SEPTEMBER. THE SUMMER MONTHS WERE INFLUENCED BY EXTREME HEAT, CHANGED VACATION PATTERNS AND UNCERTAIN SEASONAL ADJUSTMENT FACTORS. NONE OF THESE AFFECTED THE SEPTEMBER FIGURE. SOME OBSERVERS CONCLUDE THAT INDUSTRIAL OUTPUT MAY BE RESUMING THE GRADUAL UPWARD TREND ESTABLISHED DURING THE

FIRST QUARTER OF 1976.

5. GOVERNMENT WINS ON NATIONALIZATION BILL. THE

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HOUSE OF COMMONS OVERTURNED 89 AMENDMENTS TO THE CONTROVERSIAL SHIPBUILDING AND AIRCRAFT INDUSTRY NATIONALIZATION BILL WHICH HAD BEEN IMPOSED BY THE HOUSE OF LORDS. WHILE THE ISSUE OF THE STATUS OF SHIP REPAIR FACILITIES WAS DECIDED ON THE SPEAKER'S CASTING BALLOT, GOVERNMENT MARGINS REJECTING OTHER AMENDMENTS RANGED FROM 1 TO 14 VOTES. THE BILL NOW RETURNS TO LORDS.

6. FOREIGN EXCHANGE AND FINANCE. STERLING DRIFTED NEARLY A CENT LOWER ON THURSDAY TO CLOSE AT 1.6240. TRADING WAS EXTREMELY QUIET WITH NEW YORK AND SEVERAL CONTINENTAL MARKETS CLOSED. VARIOUS NEWS ITEMS, SUCH AS THE GOVERNMENT'S DEFEAT ON THE DOCKS BILL. AND RUMOURS OF A DOCK STRIKE, DELIVERED NO LASTING JOLTS TO THE MARKET. THE FORWARD MARKETS SHOWED SOME EASING IN STERLING AS THE DISCOUNT ON 3 MONTH FORWARD STERLING ROSE SLIGHTLY TO 4.15 CENTS FROM THE 4.08 CLOSE ON WEDNESDAY. STERLING OPENED STEADY ON FRIDAY.

THE SHORT END OF THE GILT MARKET, APPREHENSIVE

OVER THE TRADE FIGURES TO BE RELEASED TODAY AND PERHAPS NERVOUS ABOUT TALK OF A DOCK STRIKE, TRADED A LITTLE NERVOUSLY SHOWING LOSSES OF 1/2 ON THURSDAY. LONG GILTS TRADED MORE QUIETLY, EASING OFF 1/2 TO 5/8 BY THE CLOSE. THE MARKET RECOVERED SOME OF THOSE LIMITED OFFICIAL USE

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LOSSES IN EARLY FRIDAY TRADING, WITH GAINS OF 1/8 IN THE SHORTS AND 1/4 IN THE LONGS.

EQUITY PRICES FELL IN THURSDAY TRADING AFTER SHORT GILT PRICES BEGAN TO FALL. THE FINANCIAL TIMES INDEX OF 30 ORDINARY INDUSTRIALS FELL 3.3 POINTS TO 299.4 AT THE CLOSE. EQUITIES GAINED IN EARLY TRADING, THE FINANCIAL TIMES INDEX RISING TO 302.7 AT 10:00 A.M.

7. LABOR DEVELOPMENTS. JACK JONES, GENERAL SECRETARY OF THE TRANSPORT AND GENERAL WORKERS' UNION, REITERATED PUBLICLY WHAT HE TOLD US PRIVATELY YESTERDAY (LONDON 18226) THAT THE DOCKERS, WHO ARE PART OF HIS GIANT UNION, ARE NOT THREATENING A NATIONAL DOCK STRIKE. JONES' STATEMENT MAKES IT CLEAR THAT THE DEFEAT OF THE DOCKWORK BILL DOES NOT THREATEN THE VIABILITY OF THE TUC'S SOCIAL CONTRACT WITH THE GOVERNMENT.

8. THE NUM EXECUTIVE VOTING YESTERDAY (NOVEMBER 12) REJECTED BY A MAJORITY OF 15 TO 8, WITH TWO ABSTENTIONS, A LEFT-WING MOTION THAT MINERS BE BALLOTTED IMMEDIATELY TO GIVE THE EXECUTIVE AUTHORITY TO CALL A STRIKE IF THEIR DEMAND FOR EARLY RETIREMENT IS NOT ATTAINED BY JANUARY.

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